

**HOLCOMB RECREATION COMMISSION
HOLCOMB, KANSAS**

**FINANCIAL STATEMENT
with
INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Holcomb Recreation Commission
Holcomb, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash of the Holcomb Recreation Commission, a related municipal entity of Unified School District No. 363, as of and for the year ended June 30, 2018, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note A; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note A, the financial statement is prepared by the Holcomb Recreation Commission on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note A and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Holcomb Recreation Commission as of June 30, 2018, or changes in financial position and cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balances of the Holcomb Recreation Commission as of June 30, 2018, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note A.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash (basic financial statement) as a whole. The summary of regulatory basis expenditures – actual and budget and individual fund schedules of regulatory basis receipts and expenditures – actual and budget (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note A.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statement of the Holcomb Recreation Commission as of and for the year ended June 30, 2017 (not presented herein), and have issued our report thereon dated January 30, 2018, which contained an unmodified opinion on the basic financial statement. The 2017 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the website of the Kansas Department of Administration at the following link: <http://www.admin.ks.gov/offices/chief-financial-officer/municipal-services>. The 2017 actual column (2017 comparative information) presented in the individual fund schedules of regulatory basis receipts and expenditures – actual and budget for the year ended June 30, 2018 (Schedule 2 as listed in the table of contents) is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such 2017 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2017 basic financial statement. The 2017 comparative information was subjected to the auditing procedures applied in the audit of the 2017 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2017 basic financial statement or to the 2017 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2017 comparative information is fairly stated in all material respects in relation to the 2017 basic financial statement as a whole, on the basis of accounting described in Note A.

Kennedy McKee & Company LLP

January 28, 2019

**HOLCOMB RECREATION COMMISSION
HOLCOMB, KANSAS**

**SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES
AND UNENCUMBERED CASH
REGULATORY BASIS**

For the Year Ended June 30, 2018

	General fund	Employee Benefits fund	Total
Beginning unencumbered cash balance	\$ 943,270	\$ 57,653	\$ 1,000,923
Receipts	657,980	119,000	776,980
Expenditures	<u>(711,075)</u>	<u>(115,267)</u>	<u>(826,342)</u>
Ending unencumbered cash balance	890,175	61,386	951,561
Add encumbrances and accounts payable	<u>2,292</u>	<u>11,531</u>	<u>13,823</u>
Ending cash balance	<u>\$ 892,467</u>	<u>\$ 72,917</u>	<u>\$ 965,384</u>
Composition of cash balance:			
Demand deposits			<u>\$ 965,384</u>

The notes to the financial statement are an integral part of this statement.

**HOLCOMB RECREATION COMMISSION
HOLCOMB, KANSAS**

NOTES TO THE FINANCIAL STATEMENT

June 30, 2018

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies applied in the preparation of the accompanying financial statement is presented to assist in understanding the Commission's financial statement. The financial statement, schedules, and notes are representations of the Commission's management, which is responsible for their integrity and objectivity.

1. Municipal Financial Reporting Entity

The Holcomb Recreation Commission is a related municipal entity of Unified School District No. 363. Four of the five members of the governing board are appointed by the Board of Education. The Commission operates as a separate governing body but the District levies the taxes for the Commission and the Commission has only the powers granted by K.S.A. 12-1928. The Commission cannot purchase real property but can acquire real property by gift.

2. Basis of Presentation – Fund Accounting

The accounts of the Commission are organized and operated on the basis of funds. In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The following types of funds comprise the financial activities of the Commission for the year ended June 30, 2018:

REGULATORY BASIS FUND TYPES

General fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose fund – used to account for the proceeds of specific tax levies and other specific regulatory receipt sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The *Kansas Municipal Audit and Accounting Guide* (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows other than those mentioned above.

The Commission has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the Commission to use the regulatory basis of accounting.

4. Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund and special purpose fund. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

- a. Preparation of the budget for the succeeding year on or before July 1st.
- b. Publication in a local newspaper on or before July 10th of the proposed budget and notice of public hearing on the budget.
- c. Public hearing and adopt budget on or before July 20th, but at least ten days after publication of notice of hearing.
- d. Certify (submit) the adopted budget to the Unified School District Clerk and County Clerk.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in regulatory receipts other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments during the current year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison schedules are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Budgetary Information (Continued)

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which receipts are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

B. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the Commission. The statute requires banks eligible to hold the Commission's funds to have a main or branch bank in the county in which the Commission is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Commission has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Commission's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Commission has no investment policy that would further limit its investment choices.

Custodial credit risk – deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Commission's deposits may not be returned to it. State statutes require the Commission's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at June 30, 2018.

At June 30, 2018, the Commission's carrying amount of deposits was \$965,384 and the bank balance was \$1,028,884. Of the bank balance, \$250,000 was covered by federal depository insurance and \$778,884 was collateralized with securities held by the pledging financial institutions' agents in the Commission's name.

C. DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description. The Commission participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

C. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Contributions. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009 and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate of 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1, KPERS 2 and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 1% contribution rate with a 0% moratorium for the period of July 1, 2017 through September 30, 2017 for the Death and Disability Program) and the statutory contribution rate was 8.46% for the fiscal year ended June 30, 2018. Contributions to the pension plan from the Commission were \$22,998 for the year ended June 30, 2018.

Net Pension Liability

At June 30, 2018, the Commission's proportionate share of the collective net pension liability reported by KPERS was \$216,877. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017. The Commission's proportion of the net pension liability was based on the ratio of the Commission's contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in this financial statement.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publically available on the website at www.kpers.org or can be obtained as described above.

D. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

Other Post Employment Benefits. As provided by K.S.A. 12-5040, the Commission allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the Commission is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Commission makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured.

D. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS (CONTINUED)

Compensated Absences. The Commission's policy grants eligible employees between ten to twenty-five days of vacation per year, depending on years of service, and employees are allowed to carry over no more than forty hours from year to year. Full-time employees will earn twelve days of sick leave on July 1st of each year and can accumulate to a maximum of 480 hours. Upon separation, sick leave will be paid out at 50% of the employee's current salary. The Commission's policy is to recognize the cost of compensated absences when actually paid.

The potential liability for compensated absences for the years ended June 30, 2018 and 2017 was \$26,493 and \$30,673, respectively.

E. INTERFUND TRANSFERS

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Regulatory authority</u>
Employee Benefits fund	General fund	<u>\$ 281</u>	K.S.A. 12-1924

F. RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission purchases commercial insurance to cover these risks. There have been no significant reductions in coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

G. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 28, 2019, the date on which the financial statement was available to be used. Management's evaluation concluded that there are no subsequent events that are required to be recognized or disclosed in this financial statement.

**REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION**

**HOLCOMB RECREATION COMMISSION
HOLCOMB, KANSAS**

**SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS**

For the Year Ended June 30, 2018

	General fund	Employee Benefits fund	Total
	<u> </u>	<u> </u>	<u> </u>
Certified budget	\$ 1,587,000	\$ 177,780	\$ 1,764,780
Adjustments for qualifying budget credits	<u> -</u>	<u> -</u>	<u> -</u>
Total budget for comparison	1,587,000	177,780	1,764,780
Expenditures chargeable to current year	<u>711,075</u>	<u>115,267</u>	<u>826,342</u>
Variance favorable (unfavorable)	<u>\$ 875,925</u>	<u>\$ 62,513</u>	<u>\$ 938,438</u>

See Independent Auditor's Report.

**HOLCOMB RECREATION COMMISSION
HOLCOMB, KANSAS**

GENERAL FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

For the Year Ended June 30, 2018
(With Comparative Actual Totals for the Prior Year Ended June 30, 2017)

	2017	2018		Variance favorable (unfavorable)
		Actual	Budget	
Receipts:				
Appropriation from USD No. 363	\$ 408,266	\$ 428,200	\$ 431,898	\$ (3,698)
Program fees	83,872	74,648	80,000	(5,352)
Wellness center	80,050	93,597	62,000	31,597
Reimbursements	19,448	1,347	10,000	(8,653)
Interest	542	1,847	246	1,601
Donations	5,500	6,875	5,000	1,875
Miscellaneous	17	321	-	321
Pool	39,612	32,897	38,000	(5,103)
Rent	12,505	12,800	12,000	800
Special events	6,045	5,167	4,000	1,167
Transfer from employee benefits fund	1,222	281	-	281
Total receipts	<u>657,079</u>	<u>657,980</u>	<u>\$ 643,144</u>	<u>\$ 14,836</u>
Expenditures:				
Advertising	662	1,692	\$ 3,500	\$ 1,808
Capital outlay	38,030	111,119	900,000	788,881
Communications	8,374	8,655	10,000	1,345
Insurance	31,456	21,724	35,000	13,276
Janitorial	3,340	4,795	5,000	205
Maintenance	24,029	21,180	30,000	8,820
Office	21,378	25,272	30,000	4,728
Pool	25,442	21,545	30,000	8,455
Payroll	347,979	355,497	380,000	24,503
Professional dues and permits	1,300	1,792	3,000	1,208
Professional fees	6,155	6,306	8,000	1,694
Programs	55,360	48,118	60,000	11,882
Refunds	8,370	5,086	9,000	3,914
Testing	-	-	1,000	1,000
Travel and training	4,655	7,549	6,000	(1,549)
Utilities	46,833	46,522	50,000	3,478
Vehicle expense	6,528	7,323	8,000	677
Wellness center	15,544	16,017	18,500	2,483
Miscellaneous	1,147	883	-	(883)
Total expenditures	<u>646,582</u>	<u>711,075</u>	<u>\$ 1,587,000</u>	<u>\$ 875,925</u>
Receipts over (under) expenditures	10,497	(53,095)		
Unencumbered cash, beginning of year	<u>932,773</u>	<u>943,270</u>	<u>\$ 943,856</u>	<u>\$ (586)</u>
Unencumbered cash, end of year	<u>\$ 943,270</u>	<u>\$ 890,175</u>		

See Independent Auditor's Report.

**HOLCOMB RECREATION COMMISSION
HOLCOMB, KANSAS**

EMPLOYEE BENEFITS FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

For the Year Ended June 30, 2018
(With Comparative Actual Totals for the Prior Year Ended June 30, 2017)

	<u>2017</u>	<u>2018</u>		<u>Variance favorable (unfavorable)</u>
		<u>Actual</u>	<u>Budget</u>	
Receipts:				
Appropriation from USD No. 363	<u>\$ 112,740</u>	<u>\$ 119,000</u>	<u>\$ 119,972</u>	<u>\$ (972)</u>
Expenditures:				
Employee benefits	119,532	114,986	\$ 177,780	\$ 62,794
Transfer to general fund	<u>1,222</u>	<u>281</u>	<u>-</u>	<u>(281)</u>
Total expenditures	<u>120,754</u>	<u>115,267</u>	<u>\$ 177,780</u>	<u>\$ 62,513</u>
Receipts over (under) expenditures	(8,014)	3,733		
Unencumbered cash, beginning of year	<u>65,667</u>	<u>57,653</u>	<u>\$ 57,808</u>	<u>\$ (155)</u>
Unencumbered cash, end of year	<u>\$ 57,653</u>	<u>\$ 61,386</u>		

See Independent Auditor's Report.